

Message Text

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PAGE 01 TEHRAN 08760 210226Z

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ACTION NODS-00

INFO OCT-01 ISO-00 /001 W

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O 071845Z SEP 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC NIACT IMMEDIATE 3350

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NODIS

FOR UNDERSECRETARY ROBINSON FROM AMBASSADOR

DESIRED DISTRIBUTION S,S/S AND E ONLY REPEAT ONLY

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJECT: BILATERAL OIL AGREEMENT WITH IRAN

REF: A) STATE 208751; B) STATE 0015SV; C) STATE 209713;

D) STATE 209891; E)STATE 210889

I PRESENTED TEXT OF REF A AS AMENDED BY REFS B THROUGH E
TO ANSARY LATE MORNING OF SEPT. 5. WE DID NOT DISCUSS
SUBSTANCE BUT HE SENT ME HIS RESPONSE IN WRITING EVENING OF
SEPT 7 AS FOLLOWS:

QUOTE

COMMENTS ON U.S. DRAFT OF AGREEMENT CONCERNING FINANCIAL
ARRANGEMENTS FOR THE SALE OF CRUDE OIL

1. BACKDATING

DATING THE AGREEMENT UPON SIGNATURE IS NOT ACCEPTABLE. NOR
IS BACKDATING OF THE LIFTINGS TO JUNE 30TH. AS REPEATEDLY
STRESSED, BACKDATING SHOULD AIM AT BOTH THE AGREEMENT DATE
AS WELL AS THE COMMENCEMENT OF LIFTINGS. FOR BOTH PURPOSES,
JANUARY 1ST WAS OFTEN STRONGLY RECOMMENDED. LIFTINGS FOR
SECRET

SECRET

PAGE 02 TEHRAN 08760 210226Z

BACKDATED PERIOD SHOULD THUS BE OBLIGATORY AND NOT SUBJECT TO

MUTUAL AGREEMENT AS PROPOSED. THEY CAN, HOWEVER, TAKE PLACE GRADUALLY, AS SUGGESTED BY IRAN, WITH INDEXATION TAKING THE USWPI OF JANUARY AS THE BASE.

2. CURRENT LEVEL OF PURCHASES

CURRENT LEVEL OF EXPORTS TO THE U.S. WAS TO BE BASED ON 1974-1975 AVERAGE, WITH PROVISIONS TO PREVENT EROSIONS. SECOND SENTENCE IN ARTICLE(1) DOES NOT CORRESPOND WITH ANSARY-MINA POSITION IN PARIS. THAT POSITION IN FACT PLACED EMPHASIS ON THE NEED FOR THE U.S. GOVERNMENT TO PROPOSE SUITABLE WORDINGS IN THE AGREEMENT THAT WOULD SPELL OUT MEASURES AIMED AT ENSURING THAT PURCHASES UNDER THIS AGREEMENT WILL NOT RESULT IN SHORTFALLS IN CURRENT AVERAGE SHIPMENTS OF IRANIAN OIL REACHING THE UNITED STATES. THIS HAS NOT BEEN DONE IN THE NEW DRAFT AGREEMENT. PROVISION FOR THE TWO GOVERNMENTS TO HOLD CONSULTATIONS IN SUCH CASES IS TOTALLY INADEQUATE. DRAFT PROPOSAL PRESENTED IN PARIS WAS NOT SATISFACTORY EITHER, AS IT TENDED TO ENCOURAGE REGULAR BUYERS FROM IRAN FOR THE U.S. MARKET TO MAKE THEIR PURCHASES THROUGH THIS AGREEMENT. IF THE AGREEMENT IS TO RESULT IN A SIGNIFICANT EXPANSION OF TRADE BETWEEN THE TWO COUNTRIES, IT SHOULD IN NO WAY ERODE THE AVERAGE 1974-1975 EXPORTS OF IRANIAN OIL TO THE U.S. BY THE SAME TOKEN, RESALE ELSEWHERE BY THE U.S. GOVERNMENT SHOULD NOT IN ANY WAY REPLACE OR DISRUPT THE USUAL SALE OF IRANIAN OIL IN OTHER MARKETS.

3. PRICING

BECAUSE PROCEEDS FROM THE SALE OF CRUDE OIL WILL BE earmarked FOR PAYMENT TO THE U.S. AGAINST EXPORTS TO IRAN, IT IS ONLY FAIR THAT SUCH EXPORTS BE CALCULATED ON C & F BASIS AT LEAST WHEN SHIPMENTS ARE MADE ABOARD U.S. FLAG CARRIERS.

4. MORATORIUM

THERE WAS NEVER AN AGREEMENT TO PROVIDE THE U.S. WITH 65 DAYS OF MORATORIUM OVER AND ABOVE THE USUAL DEFERRED
SECRET

SECRET

PAGE 03 TEHRAN 08760 210226Z

PAYMENT ARRANGEMENTS. NOR DID ROBINSON EVER TAKE A POSITION IN THIS CONTEXT. ROBINSON, IN FACT, STARTED WITH 180 DAYS AND INCHED HIS WAY DOWN. IT WAS EXPLAINED TO HIM THAT DEFERRED PAYMENT GENERALLY ALLOWED ON CRUDE OIL EXPORTS AVERAGED 55-60 DAYS, EXCEEDING THIS PERIOD ONLY IN EXCEPTIONAL CIRCUMSTANCES. THE OFFER OF 120 DAYS WAS, THEREFORE, MADE SUBJECT TO BACKDATING TO JANUARY 1ST. THE PRINCIPAL OF UNDERTAKING AN EXTRA PERIOD OF 65 DAYS, BEYOND

THE USUAL DEFERRED ARRANGEMENTS, AS IS NOW PROPOSED, IS OUT OF THE QUESTION.

5. SPECIAL FIVE YEAR NOTES

A. FOR THE PERIOD DURING WHICH THE U.S. WILL ACT AS SALES AGENT FOR IRAN, IT IS PROPOSED THAT "NOTES BE DEEMED TO BE ISSUED ONLY UPON RECEIPT OF AND TO THE EXTENT OF PAYMENT FROM THE PURCHASERS OF THE BEARER CONTRACTS". THIS APPEARS TO INDICATE:

1) THAT THE U.S. GOVERNMENT DOES NOT ASSUME RESPONSIBILITY FOR PAYMENT ON THE PART OF PURCHASERS TO WHICH IT WILL SELL THE IRANIAN CRUDE OIL. THIS, IN FACT, IS EXPECTED OF A SALES AGENT.

2) THAT THE AVERAGE 15 DAYS OF DELAY BETWEEN THE ISSUANCE OF THE NOTES AND SHIPMENT OF OIL IS ALSO TO BE APPLIED TO SUCH SALES. THIS CANNOT BE ACCEPTED IF, AS THE AGREEMENT SEEMS TO INDICATE, SHIPMENTS DURING THIS PERIOD ALSO ARE TO TAKE PLACE REGULARLY EACH MONTH WHILE NOTES ARE ISSUED TO IRAN ONLY UPON RECEIPT OF PAYMENT FROM THE PURCHASERS.

IT SHOULD ALSO BE BORNE IN MIND THAT IN SUCH CASES MORATORIUM MUST BE CALCULATED FROM THE DATE OF EACH SHIPMENT.

B. INTEREST ON THE NOTES SHOULD BE CALCULATED EVERY 30 DAYS RATHER THAN THE 90 DAYS PROPOSED.

SECRET

SECRET

PAGE 04 TEHRAN 08760 210226Z

6. DISPOSAL OF OIL NOT SOLD BY U.S. GOVERNMENT

NO MENTION HAS BEEN MADE OF THE FATE OF OIL SHIPPED BUT NOT SOLD IN THE PERIOD THE U.S. GOVERNMENT ACTS AS SALES AGENT FOR IRAN. THE DRAFT AGREEMENT SIMPLY ALLOWS IRAN THE RIGHT TO CANCEL OR TRANSFER TO THE FOLLOWING MONTH WHEN INDEXING MAY IN FACT MAKE IT MORE DIFFICULT TO SELL. THIS, OF COURSE, IS NOT ACCEPTABLE.

THE GOVERNMENT OF IRAN NEEDS TO BE ASSURED IN ADVANCE THAT IT SHALL RECEIVE PERMITS TO SELL SUCH SHIPMENTS AT ITS OWN DISCRETION IN THE UNITED STATES. THIS WAS POINTED OUT PRIOR TO THE RECEIPT OF THE DRAFT AGREEMENT, BUT HAS BEEN IGNORED.

7. NOTICES

A. FOR THE U.S. TO HAVE THE RIGHT TO TERMINATE AGREEMENT ANYTIME ON 45 DAYS NOTICE, IF THE PURCHASE PRICES EXCEED THE THEN CURRENT PERSIAN GULF PRICES FOR OIL "CORRESPONDING" TO EITHER AGHAJARI OR GACHSARAN CRUDE OIL, IS A NEW DEPARTURE FROM THE UNDERSTANDING REACHED SO FAR. THERE WAS NEVER A QUESTION OF OTHER "OIL CORRESPONDING TO AGHAJARI OR GACHSARAN". IF THIS CONCEPT IS TO BE CONSIDERED, THEN THE SAME CONDITIONS SHOULD APPLY TO THE SALE OF U.S. GOODS AND SERVICES TO IRAN.

AS THE POSITION ON YOUR SIDE SEEMS TO BE CHANGING CONSTANTLY ON MOST ISSUES, IT IS ONLY FAIR TO POINT OUT THAT THE ORIGINAL PROVISION FOR THE UNITED STATES TO SERVE NOTICE ON IRAN ANYTIME THE PRICES CHARGED UNDER THIS AGREEMENT EXCEED CURRENT PRICES OF AGHAJARI OR GACHSARAN CRUDE OIL, RUNS COUNTER TO THE DESIRE OF BOTH SIDES TO CONCLUDE A WORKABLE AGREEMENT. ONE WAY TO ENSURE CONTINUITY, AS WELL AS EQUAL RIGHT FOR BOTH SIDES, IS FOR THE U.S. TO AGREE TO A RIGHT OF NOTICE NOT AT ANY TIME BUT IN THE EVENT THE AVERAGE PRICES CHARGED UNDER THIS AGREEMENT EXCEED CURRENT PRICES IN ANY TWELVE-MONTH PERIOD AS IN THE CASE OF THE RIGHT TO SERVE NOTICE BY IRAN.

SECRET

SECRET

PAGE 05 TEHRAN 08760 210226Z

B. INTRODUCING THE FACTORS OF QUALITY INTO THE CALCULATION OF THE WEIGHTED AVERAGE PRICE FOR PURCHASES BY IRAN IN THE U.S. IS NOT ACCEPTABLE. HOWEVER, AS EXPLAINED IN THE COURSE OF ALL PREVIOUS DISCUSSIONS, ALLOWANCE CAN BE MADE FOR CHANGES IN SPECIFICATIONS WHERE SUCH CHANGES TAKE PLACE.

8. GENERAL REMARKS

THE DRAFT AGREEMENT, AS RECEIVED, IS UNACCEPTABLE IN ALMOST ALL ITS PRINCIPAL POINTS. CLEARLY, IT INDICATES A RADICAL DEPARTURE FROM THE BASIC CONDITIONS UNDER WHICH THE AGREEMENT HAS A REASONABLE CHANCE OF ACCEPTANCE.

IT IS SON ONE-SIDED THAT IT IS ALMOST INCOMPREHENSIBLE AND RAISES THE QUESTION OF WHETHER THOSE WHO PREPARED THE AGREEMENT WERE IN FACT SERIOUSLY INTERESTED IN FINALIZING THIS TRANSACTION. EVERY CHANGE IN YOUR POSITION CONSTITUTES ANOTHER STEP AWAY FROM THE BASIC CONDITIONS REPEATEDLY STRESSED BY IRAN AS A PREREQUISITE TO THE CONCLUSION OF THE AGREEMENT.

THERE IS NO QUESTION BUT THAT THE QUANTITIES UNDER DISCUSSION

CAN PROMPTLY AND EASILY BE DISPOSED OF THROUGH THE OIL COMPANIES IF PROVIDED WITH A DISCOUNT OF ONLY A FEW CENTS-VERY INSIGNIFICANT WHEN COMPARED WITH THE MANY INCENTIVES PROVIDED FOR THE U.S. GOVERNMENT UNDER THIS AGREEMENT.

IF THE AGREEMENT POSES SUCH GREAT PROBLEMS FOR THE U.S., PERHAPS IT HAD BEST BE LEFT IN ABEYANCE AND TAKEN UP ON A NEW BASIS AGAIN AFTER OCTOBER IF THE U.S. IS STILL INTERESTED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, AGREEMENT DRAFT, MEETING, CAT-C, TEXT NOT-TRANSMITTED TO ISO
Control Number: n/a
Copy: SINGLE
Draft Date: 07 SEP 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TEHRAN08760
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: P850004-1831
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750975/aaaacojt.tel
Line Count: 235
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NODS
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: NODIS
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: NODIS
Reference: 75 STATE 208751, 75 STATE 209713, 75 STATE 209891, 75 STATE 210889
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by BoyleJA>; APPROVED <25 NOV 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BILATERAL OIL AGREEMENT WITH IRAN
TAGS: ENRG, IR, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006